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Keeping Secrets: The Case for a North American Trade Secret Agreement

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KEEPING SECRETS: THE CASE FOR A NORTH AMERICAN TRADE SECRET AGREEMENT

JONATHAN K. HEATH^{*}

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INTRODUCTION

As companies continue to grow and engage in international and multinational markets, they must continue to be vigilant in the protection of their confidential and trade secret information. The measures available to protect trade secret and

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confidential information from loss and the remedies available in the event this information is lost vary widely from country to country. While this article attempts to touch upon the use of restrictive covenants to protect against the misappropriation of trade secrets by employees and former employees, its focus is on the myriad of statutes that exist in North America that corporations should be aware of.

It is not uncommon for high-level employees or specialized employees to have access to trade secret and highly confidential information. When one of these employees resigns and takes a job with a competitor, it can be a cause for concern. Naturally, many companies choose to create a restrictive covenant with the goal of preventing a former employee from working for a competitor for a length of time after leaving the company. This may seem, at first blush, to be a prudent decision for the employer. However, availability of restrictive covenants to protect trade secret information by means of a non-compete clause is not uniform across even the United States, and as explained in this article, restrictive covenants are sometimes unavailable in other areas of North America.

I believe that non-compete agreements are difficult to enforce and the ability to use them varies widely from jurisdiction to jurisdiction. Instead of relying on non-compete agreements to facilitate the protection of trade secrets, companies would be better served by uniform trade secret protection at the federal level.

While civil trade secret legislation exists at the state level, it does not exist at the federal level in the United States. Moreover, litigation can prove time consuming and costly, especially if the company has operations in several locations. When a company has offices and employees across international borders, however, these problems are magnified.

While the North American Free Trade Agreement (NAFTA) provides that there be a legal framework for the protection of trade secrets,¹ the means by which trade secrets are protected vary widely between the United States, Mexico, and Canada. Instead of creating a single, uniform, statutory scheme for the protection of trade secrets across North America, we are left with a fractured and uneven approach across not only the three trade partners, but across the individual states and provinces inside the countries themselves.

Employers should be aware of both the differences and similarities in the way each country separately applies restrictive covenants as they pertain to trade secret protection if they are to ensure they have the most complete protection from improper disclosure of their vital information by former employees. Of course, with the extensive list of differing legislation and court decisions, this can be a difficult if not unachievable goal to meet.

In this paper, I attempt to give an overview of the statutory trade secret

¹ North American Free Trade Agreement, Can.-Mex.-U.S., art. 1711(1), Dec. 17, 1992, 32 I.L.M. 289 (1993).

protections available in the United States,² Canada,³ and Mexico,⁴ and suggest a solution to the problem of inadequate and confusing trade secret legislation: an international agreement between the NAFTA signatories criminalizing the theft of trade secrets.⁵

I. UNITED STATES OF AMERICA

Trade secret protection in the United States has long been regarded as a tort claim. The American Law Institute, in publishing its Restatement (First) of Torts in 1939, included a section called, “Liability for Disclosure or Use of Another’s Trade Secret—General Principle”.⁶ For many years, this section of the Restatement was the often-cited source for trade secret theft, at least for those states that chose to adopt it. Because it is a legal treatise, states are free to adopt or not adopt its provisions as they see fit. At about the same time that the Uniform Trade Secrets Act was being written, the Restatement (Second) of Torts was published. Section 737 dealing with trade secrets was absent from the Restatement. Having been removed from the Restatement,⁷ trade secrets were nevertheless discussed in the Uniform Trade Secret Act, also released in 1979. While many states have adopted American Law Institute (ALI) publications such as the Restatement of Torts, no state has yet to adopt the Restatement (Third) of Unfair Competition.⁸ Referring to the Uniform Trade Secrets Act, the ALI has noted that in the Restatement (Third) of Unfair Competition is: “The concept of a trade secret as defined in this Section is intended to be consistent with the definition of ‘trade secret’ in § 1(4) of the Act.”⁹

A. Trade Secret Protection at the State Level

The Uniform Trade Secrets Act was drafted by the National Conference of Commissioners on Uniform State Laws in 1979 and amended in 1985, with an aim to provide a constant statute for the protection of trade secrets across the United States.¹⁰

² See *infra* Part I.

³ See *infra* Part III.

⁴ See *infra* Part II.

⁵ See *infra* Part IV.

⁶ RESTATEMENT (FIRST) OF TORTS § 757 (AM. LAW INST. 1939).

⁷ See Holly Emrick Svetz, Note, *Japan’s New Trade Secret Law: We Asked for It—Now What Have We Got?*, 26 GEO. WASH. J. INT’L L. & ECON. 413, 417–18 (1992) (“Trade secrets were not included in the Restatement (Second) of Torts because the American Law Institute felt that trade secrets had become incorporated in unfair competition law, which the Institute considered to be a field separate from tort law.”).

⁸ *Common Law v. UTSA: The Last States Standing*, LAW360 (Apr. 2, 2012, 12:22 PM), <http://www.law360.com/articles/321776/common-law-v-utsa-the-last-states-standing> [hereinafter *Common Law v. UTSA*].

⁹ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (AM. LAW INST. 1995).

¹⁰ See UNIF. TRADE SECRETS ACT §§ 1–12 (UNIF. LAW COMM’N 1985).

Unfortunately, the Uniform Trade Secrets Act has not been adopted by all fifty states in the United States.¹¹ Additionally, in those states that have adopted the Uniform Trade Secrets Act, they have not implemented the model act uniformly.¹² This results in a patch work of trade secret laws across the United States with meaningful differences in even the most basic definitions from state to state¹³ and defeating the goal of a truly “uniform” trade secret law.

While most states have adopted the Uniform Trade Secrets Act, not all states have opted to criminalize the theft of trade secrets. One state that has is California, where the penalty for the theft of trade secrets is up to a year imprisonment, a \$5,000 fine, or both.¹⁴

B. Trade Secret Protection at the Federal Level

There is no protection of trade secrets at the federal level in the United States. While there are other protections, such as copyrights,¹⁵ trademarks,¹⁶ and patents,¹⁷ Congress has not seen fit to establish civil statutory protection of trade secrets. Copyright and patent laws are explicitly authorized by the Constitution,¹⁸ whereas trademarks are not.

As discussed below, in 1996, Congress passed the Economic Espionage Act (EEA), which provided the federal government’s first criminal law against the theft of trade secrets.

1. Economic Espionage Act of 1996

The Economic Espionage Act of 1996 is the federal statute that addresses the theft and misappropriation of trade secret information.¹⁹ Despite the fact that this Act seemingly applies to any case of trade secret theft, the United States Department of Justice has issued a prosecutorial policy that states, in part:

The EEA is not intended to criminalize every theft of trade secrets for which civil remedies may exist under state law. It was passed in recognition of the increasing importance of the value of intellectual property in general, and trade secrets in particular to the economic well-being and security of the United States and to close a

¹¹ See *Common Law v. UTSA*, *supra* note 8.

¹² See *id.*

¹³ See *id.* (Massachusetts, New York, and Texas are the only states that have not enacted the UTSA in some form.).

¹⁴ CAL. PENAL CODE § 499c (West 2011).

¹⁵ See 17 U.S.C. § 102 *et seq.* (2012); see also 18 U.S.C. § 2318 (2012).

¹⁶ See 15 U.S.C. § 1051 *et seq.* (2012).

¹⁷ See 35 U.S.C. § 101 *et seq.* (2012).

¹⁸ See U.S. CONST. art. I, § 8, cl.8.

¹⁹ Economic Espionage Act of 1996, 18 U.S.C.A. §§ 1831–39 (West 2013).

federal enforcement gap in this important area of law.²⁰

In fact, as part of that same policy,

The United States may not file a charge under 18 U.S.C. § 1831 of the Economic Espionage Act . . . or use a violation under § 1831 of the EEA as a predicate offense under any other law, without the approval of the Assistant Attorney General for the Criminal Division (or the Acting official if a position is filled by an acting official).²¹

With this prosecutorial policy in place, it does not seem likely that the EEA is a suitable remedy for most cases of corporate espionage related to trade secret information.

Violating 18 U.S.C. § 1831 requires the stealing of a trade secret to benefit a foreign government or agent.²² The penalties for violating § 1831 are much more severe than for violating § 1832, which does not require the benefit of a foreign government.²³ In fact, violating § 1832 does not result in a fine against an individual, where violating § 1831 can result in a \$5,000,000 per offense.²⁴

Despite the Department of Justice prosecutorial policy mentioned above, there have been dozens of prosecutions under the EEA for trade secret theft.²⁵

In one such prosecution, *United States v. Agrawal*, the defendant was accused of stealing computer code from his employer and attempting to sell it to another company.²⁶ The defendant was convicted of violating the EEA and the National Stolen Property Act.²⁷ This conviction resulted in a three-year prison sentence for the defendant and the conviction was upheld on appeal.²⁸

Not all prosecutions under the EEA have fared well in appeals court. In *United States v. Aleynikov*, the criminal charges were the same as under *Agrawal*: violations of the EEA and the NSPA.²⁹ Convicted in the district court, Aleynikov appealed claiming that the information he stole was not “related to or included in a product

²⁰ U.S. DEP’T JUST., UNITED STATES ATTORNEYS’ MANUAL: 9-59.100 ECONOMIC ESPIONAGE ACT OF 1996 (18 U.S.C. §§ 1831–37)—PROSECUTIVE POLICY (2004), <http://www.justice.gov/usam/usam-9-59000-economic-espionage>.

²¹ *Id.*

²² Economic Espionage Act of 1996, 18 U.S.C.A. § 1831(a) (West 2013).

²³ *Id.* §§ 1831–32.

²⁴ *See id.*

²⁵ *See, e.g., United States v. Agrawal*, 726 F.3d 235 (2d Cir. 2013).

²⁶ *Id.*

²⁷ *United States v. Agrawal*, 726 F.3d 235, 237 (2d Cir. 2013); *see also* Jonathan Stempel, *Court Affirms U.S. Code Theft Conviction of Ex-SocGen Trader*, REUTERS (Aug. 1, 2003), <http://www.reuters.com/article/2013/08/01/us-societegenerale-agrawal-conviction-idUSBRE9700SZ20130801> (“Raggi also said Agrawal’s activity violated the NSPA because he had printed the code in SocGen’s office on thousands of sheets of paper, using the French bank’s equipment.”).

²⁸ *Agrawal*, 726 F.3d at 241–42.

²⁹ *United States v. Aleynikov*, 676 F.3d 71, 74–75 (2d Cir. 2012); *see Agrawal*, 726 F.3d at 237 (2d Cir. 2013); *see also* Jonathan Stempel, *Court Affirms U.S. Code Theft Conviction of Ex-SocGen Trader*, REUTERS (Aug. 1, 2003), <http://www.reuters.com/article/2013/08/01/us-societegenerale-agrawal-conviction-idUSBRE9700SZ20130801>.

that is produced for or placed in interstate or foreign commerce,” and thus did not meet the statutory definition under the EEA, and that the computer code he stole was “intangible property” and thus did not meet the definitions of the NSPA.³⁰ The court found in favor of Aleynikov and reversed his conviction.³¹ The United States Attorney did not file for an *en blanc* review.³²

As a result of the *Aleynikov* case Congress passed the Theft of Trade Secrets Clarification Act of 2012, which amended and clarified the provisions of the EEA to address exactly what occurred in the *Aleynikov* case.³³

Despite the fact that the United States does not have a national way to protect trade secrets under civil law, it does have a robust federal trade secret criminal law that has been applied successfully to punish those who steal trade secrets.³⁴ It also can be seen as a deterrent to trade secret theft, although, it is hard to quantify the deterrence factor, because there is no way to truly know how many people did not commit a crime because they were concerned about the consequences.

C. Non-Compete Clauses in the United States

In the United States, the use of non-compete clauses to protect trade secret information by prohibiting former employees from working for competing businesses varies from state to state. In California, non-compete agreements are unenforceable as a matter of law.³⁵ In Louisiana, the state supreme court has ruled that non-compete agreements are “disfavored.”³⁶

In other states, various factors such as the scope and range of the restriction, duration of the restriction, and public policy concerns come into play.³⁷ With this in

³⁰ *Aleynikov*, 676 F.3d at 74–75 (citing National Stolen Property Act, 18 U.S.C.A. § 2314 (West 2013)).

³¹ *Id.* at 82.

³² *See id.*

³³ Theft of Trade Secrets Clarification Act of 2012, Pub. L. No. 112-236, 126 Stat. 1627; *see Aleynikov*, 676 F.3d at 74–75; *see* 18 U.S.C. § 1832 (as amended):

(a) Whoever, with intent to convert a trade secret, that is related to ~~or included in a product that is produced for or placed in a product or service used in or intended for use in~~ interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret . . .

(Strikeout shows the text prior to the amendment that was removed, and the underline shows the text added to the statute). *Compare* Theft of Trade Secrets Clarification Act of 2012, Pub. L. No. 112-236, 126 Stat. 1627, *with* Economic Espionage Act of 1996, 18 U.S.C. § 1832 (1996), amended by 18 U.S.C. § 1832 (2012).

³⁴ *See* Economic Espionage Act of 1996, 18 U.S.C.A. §§ 1831–1839 (West 2013).

³⁵ CAL. BUS. & PROF. CODE § 16600 (West 2015) (“Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”).

³⁶ *W. Carroll Health Sys., L.L.C. v. Tilmon*, 92 So. 3d 1131, 1136 (La. Ct. App. 2012) (“A covenant not to compete contained in an employment agreement is disfavored in Louisiana because it may function to deprive a person of his livelihood. Such a covenant will be enforced only if it meets narrowly drawn criteria.”).

³⁷ Michelle Evans, *Enforceability of Covenant Not to Compete*, 104 AM. JURIS. PROOF FACTS 3d

mind, businesses cannot rely solely upon restrictive covenants to protect their trade secrets without running into the same problems with differing state laws that they do when seeking out trade secret protection.

II. MEXICO

A. Mexican Statutes that Protect Trade Secret

The unauthorized disclosure of trade secrets is considered a federal criminal offense in Mexico and is punishable by a prison term of up to six years and a fine of 100 to 10,000 days of minimum wages.³⁸ Since there is harsh criminal liability for disclosing trade secrets in Mexico, one might wonder why businesses in Mexico would attempt to explore restrictive covenants in employment contracts at all. After all, it would seem like the penalty for disclosing a trade secret would deter many workers from disclosing trade secrets to a competing employer. The catch is in the complicated definition of trade secrets in Mexico.

1. Industrial Property Law, Trade Secret Protection at the Federal Level

Articles 82 through 86 deal with the definitions, protections, and uses of trade secrets. Article 82 contains three main provisions for determining what a trade secret is.

Any industrially or commercially applicable information which an individual or company keeps and which is confidential in nature and associated with securing or retaining a competitive or economic advantage over third parties in the conduct of economic activities, and regarding to which said individual or company has adopted sufficient means or systems to preserve its confidentiality and restrict access thereto, shall be considered a trade secret.³⁹

This definition in essence encompasses both of the definitions of a trade secret under the Restatement (Third) of Unfair Competition and under the Uniform Trade Secrets Act. While the Restatement has only a very small one-sentence definition of a trade secret,⁴⁰ it is very closely aligned to the first part of Article 82. Where Article 82 requires the company or individual to have in place “sufficient means or systems

393, at § 3 (2015).

³⁸ BAKER & MCKENZIE, *DOING BUSINESS IN MEXICO* 344 (Carlos Angulo-Parra & Irlanda Torres-Lara eds., 2nd ed. 2008).

³⁹ Ley de la Propiedad Industrial [LPI], Artículo 82, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), translated in *Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 40, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

⁴⁰ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995) (“A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”).

to preserve its confidentiality and restrict access thereto,”⁴¹ the Uniform Trade Secrets Act requires that the trade secret be “the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”⁴² Article 82 provides the following: “The information constituting a trade secret shall necessarily relate to the nature, characteristics or purposes of products, to production methods or processes or to ways or means of distributing or marketing products or rendering services.”⁴³

While this part of the definition may seem to be restrictive in nature, upon closer examination it appears that it covers nearly every aspect of what a company or business would want to protect under trade secret legislation, from the actual product or good, to the production of the item, to its eventual distribution and marketing.

Information that is in the public domain is obvious to a person skilled in the art on the basis of previously available information or must be disclosed by virtue of a legal provision or court order shall not be considered a trade secret. Information that is supplied to any authority by a person possessing it as a trade secret shall not be considered as entering the public domain or being disclosed by virtue of a legal provision, when it is supplied for the purpose of obtaining licenses, permits, authorizations, registrations or any other official documents.⁴⁴

This section provides that the trade secret protection shall survive even if the information is provided to the government in the course of navigating the governmental bureaucracy to obtain clearances necessary to operate.

One of the interesting aspects of the Mexican definition of a trade secret is Article 83, which states: “The information referred to in the previous Article shall consist of documents, electronic or magnetic media, optical disks, microfilms, films or other similar material.”⁴⁵ This means that information, to be considered a trade secret, must be reduced to a tangible form. Since trade secrets must be an actual physical item, they cannot be communicated or transmitted orally.⁴⁶ This can pose a risk for protecting intangible secrets such as processes, plans, or even secret recipes that are not reduced to written material. This restriction can be easily overcome by

⁴¹ Ley de la Propiedad Industrial [LPI], Artículo 82, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), *translated in Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 40, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

⁴² UNIF. TRADE SECRETS ACT § 1(4)(ii) (UNIF. LAW COMM’N 1985).

⁴³ Ley de la Propiedad Industrial [LPI], Artículo 82, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), *translated in Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 40, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

⁴⁴ *Id.*

⁴⁵ Ley de la Propiedad Industrial [LPI], Artículo 83, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), *translated in Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 40, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

⁴⁶ Ignacio Dominguez-Torrado, *Trade Secrets in Mexico*, INTELL. ASSET MGMT., July/Aug. 2010, at 90 (“In addition, information cannot be disclosed orally if it is to be considered a trade secret, even if the disclosing party declares to the recipient that the same must be kept in confidence.”), <http://www.iam-media.com/Magazine/Issue/42/Management-report/Trade-secrets-in-Mexico>.

reducing the intangible trade secret to a tangible form specified in Article 83, and then only disclosing the trade secret in that form.

Article 84 provides that when a trade secret is transferred to a third party, or its use by a third party is authorized, the third party “shall be under the obligation not to disclose the trade secret by any means.”⁴⁷ Article 85 is a catchall section that forbids the release of the trade secret by anyone who has access to the trade secret, not just employees.⁴⁸

Articles 86 and 223 provide for the penalties for violating the trade secret protections under Mexican law. Article 86 establishes that an individual or company who illegally obtains a trade secret is liable for damages, as is any former employee or consultant who took such a position “with [the aim of] obtaining trade secrets.”⁴⁹ It should be noted that the statutory language in Article 86 is “liable for payment of damages for any harm caused to that person,”⁵⁰ which would establish liability only if actual harm had been caused. This means that if there had been no actual harm caused by the theft of the trade secrets, there would be no attached liability. Article 223 provides in subparagraphs IV, V, and VI, that the theft of trade secrets is an offense that “shall be prosecuted at the instigation of the aggrieved party.”⁵¹ Article 224 provides the following stiff sentences for violators of the trade secret protections: “Imprisonment ranging from 2 to 6 years in length and a fine of 100 to 10,000 days of the general minimum salary payable in Mexico City shall be imposed on persons who commit the offenses specified”⁵²

B. Constitutional Issues Surrounding Restrictive Covenants

While it may be tempting for employers who employ workers in Mexico to draft a restrictive covenant that is similar to the non-compete agreement they might

⁴⁷ Ley de la Propiedad Industrial [LPI], Artículo 84, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), *translated in Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 40, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

⁴⁸ Ley de la Propiedad Industrial [LPI], Artículo 85, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), *translated in Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 40–41, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015) (“Any person who, by reason of his work, employment, function or post, the practice of his profession or the conduct of business relations, has access to a trade secret the confidentiality of which he has been warned of shall abstain from revealing it without just cause and without the consent of the person keeping said secret or of the authorized user thereof.”).

⁴⁹ Ley de la Propiedad Industrial [LPI], Artículo 86, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), *translated in Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 41, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

⁵⁰ *Id.*

⁵¹ Ley de la Propiedad Industrial [LPI], Artículo 223, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), *translated in Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 105–06, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

⁵² Ley de la Propiedad Industrial [LPI], Artículo 224, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), *translated in Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 106, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

use in the United States, this is generally a bad idea. Employment and labor law in Mexico operates very differently than in the United States. The Mexican Constitution forbids agreements and contracts that restrict the ability of a worker to seek out employment opportunities with other employers—even major competitors.⁵³ In fact, workers in Mexico enjoy constitutional protection of the right to meaningful and dignified employment.⁵⁴

Even though facially, restrictive covenants in an employment contract appear to be unconstitutional in Mexico, they are nevertheless inserted into contracts or used as separate agreements.⁵⁵ Admitting that they are not enforceable, one Mexican law firm claims that they “lack . . . legal value but they could affect the employee’s morale, . . . causing him or her to respect them.”⁵⁶ It has been suggested that employers disburse, in advance, a monetary payment to the employee in exchange for adherence to the restrictive covenant. Because the employer has already paid the employee to not compete, and because the non-compete clause is in fact unenforceable, the employer goes to court seeking a judgment that the non-compete clause—and the payment the employer made to the employee—is void and that the employee must return the money.⁵⁷

III. CANADA

Canada does not have a federal trade secrets theft statute that applies except in the case of economic espionage. While it was once thought that trade secret and confidential information could be prosecuted under the Criminal Code as theft, the decision of the Supreme Court of Canada in *R. v. Stewart* declared that approach invalid as a matter of policy.⁵⁸

As in the United States, an attempt was made to establish a unified system of civil trade secret protection by means of a uniform statute. However, not a single

⁵³ See Constitución Política de los Estados Unidos Mexicanos [C.P.], Artículo 5, Diario Oficial de la Federación [DOF], 5-2-1917 (Mex.), translated in *Political Constitution of the United Mexican States*, WORLD INTELL. PROP. ORG. 19–21, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx047en.pdf> (last visited Nov. 6, 2015) [hereinafter *Mexican Constitution*].

⁵⁴ *Mexican Constitution*, supra note 53.

⁵⁵ BASHAM, RINGE Y CORREA SC, LAW AND EMPLOYMENT DESK BOOK MEXICO 5 (Lex Mundi Ltd. 2010), www.lexmundi.com/Document.asp?DocID=1347.

⁵⁶ *Id.*

⁵⁷ Christopher P. Stief, *Mexico Non-Compete and Trade Secrets Law: A Primer for U.S. In-House Counsel*, MARTINDALE.COM (Nov. 3, 2011), http://www.martindale.com/labor-employment-law/article_Fisher-Phillips-LLP_1369764.htm (“This approach, of course, can be seen as a bit of an ‘end run’ around the Mexican proscriptions against non-compete agreements, and although it may have worked at times in the past, there is no guarantee that courts in the future will not at some point reject the argument that the ‘illegal’ covenant should be stricken down and the parties returned to the status quo ante.”).

⁵⁸ See *R. v. Stewart*, [1988] 1 S.C.R. 963 (Can.) (“For these reasons, I am of the opinion that, as a matter of policy, confidential information should not be property for the purposes of s. 283 of the Code. To the extent that protection is warranted for confidential information, it should be granted through legislative enactment and not through judicial extension of the concept of property or of the scope of the theft provision under the Criminal Code.”).

Canadian province has adopted the Canadian version of the Uniform Trade Secrets Act.⁵⁹

We are left with, in Canada as in the United States, a fragmented system of civil trade secret protection that differs from province to province, and no meaningful criminal protection at the provincial level.

A. Federal Protection of Trade Secrets in Canada

After the *Stewart* decision, the Canadian Parliament amended what was the Official Secrets Act, renaming it the Security of Information Act.⁶⁰ Part of this act provides that an individual who, “at the direction of, for the benefit of or in association with a foreign economic entity, fraudulently and without colour of right and to the detriment of Canada’s economic interests, international relations or national defense or national security,”⁶¹ communicates a trade secret is guilty of a criminal offense. This is similar in some respects to the first section of the Economic Espionage Act of 1996 in the United States, but lacks the second section making trade secret theft a crime even when not part of economic espionage or when the theft does not directly benefit a foreign power.

B. Non-Compete Agreements in Canada

There are two cases that seem to illustrate how difficult it is to have an enforceable and effective non-compete agreement in Canada. The first case, *Lyons v. Multari*,⁶² comes from the Ontario Court of Appeals a provincial appeals court. In this case, Multari, a dentist, signed an employment contract that prohibited him from opening any dental office within five miles of Lyons for a period of three years after he stopped working for Lyons.⁶³ Some months after leaving the employ of Lyons, Multari opened up his own oral surgery practice within five miles.⁶⁴ Lyons sued and obtained a judgment against Multari, which was then appealed to the Ontario Court of Appeals.⁶⁵ On appeal, the Court found that the non-compete agreement was too strict and that a simple non-solicitation agreement (preventing Multari from soliciting patients of Lyons) would have been the more appropriate solution.⁶⁶ It is

⁵⁹ Table III: Pre-2000 Uniform Acts Enacted by Statute, UNIFORM LAW CONF. CAN., <http://www.ulcc.ca/en/general-info-status/other-implementation-tables/2129-table-iii-pre-2000-uniform-acts-enacted-by-statute> (last visited Nov. 10, 2015).

⁶⁰ See R.S.C. 1985, c. O-5 (Can.).

⁶¹ *Id.* at 19.

⁶² *Lyons v. Multari*, [2000] 50 O.R. (3d) 526 (Can.).

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.* at ¶ 33 (“An important question in the case law relates to the relationship between non-solicitation and non-competition clauses. Generally speaking, the courts will not enforce a non-competition clause if a non-solicitation clause would adequately protect an employer’s interests.”).

the Court's choice of language here that speaks to the desire not to enforce non-compete agreements, at least in this province: "Dr. Lyons chose the more drastic weapon in his dealings with Dr. Multari. The covenant he chose, and to which Dr. Multari agreed, was a non-competition covenant with spatial (five miles) and temporal (three years) limits."⁶⁷

The second case for illustration is *Shafron v. KRG Insurance Brokers (Western) Inc.*,⁶⁸ a Supreme Court of Canada case in which Shafron agreed for a period of three years after leaving his employment not to be employed in insurance within the "Metropolitan City of Vancouver."⁶⁹ Within that period, he became employed at another insurance agency in Richmond, a town adjacent to Vancouver.⁷⁰ The issue that the courts considered was the ambiguity of the phrase "Metropolitan City of Vancouver."⁷¹ Finding that the term was ambiguous, the Supreme Court of Canada reversed the lower court's ruling and invalidated the non-compete agreement.⁷²

In both of these rulings, the Courts quote heavily from *Nordenfelt v. Maxim Nordenfelt Guns and Ammunition Co.*,⁷³ a House of Lords decision that states, in part:

The public has an interest in every person's carrying on his trade freely: so has the individual. All interference with individual liberty of action in trading, and all restraints of trade of themselves, if there is nothing more, are contrary to public policy, and therefore void. That is the general rule.⁷⁴

Immediately following this quote, the Supreme Court of Canada opinion in *Shafron* reads: "Therefore, despite the presumption that restrictive covenants are *prima facie* unenforceable, a reasonable restrictive covenant will be upheld."⁷⁵ With reasonableness being something that is applied on a case-by-case basis, and in view of this and other rulings of the Canadian judiciary, employers cannot be assured that their non-compete agreements will survive a challenge in court.

IV. PROPOSED: THE NORTH AMERICAN TRADE SECRET AGREEMENT

Once the United States, Canada, and Mexico can come together to develop a uniform trade secret agreement that would be beneficial to companies operating in any or all three of the countries, an appropriate treaty or international agreement

⁶⁷ *Id.* at ¶ 32.

⁶⁸ *Shafron v. KRG Insurance Brokers (Western) Inc.*, [2009] 1 S.C.R. 157 (Can.).

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² *Id.*

⁷³ *Nordenfelt v. Maxim Nordenfelt Guns and Ammunition Co.*, [1894] AC 535 (U.K.).

⁷⁴ *Id.* (quoting Macnaughten).

⁷⁵ *Id.*

would need to be drafted.

Owing to the varying civil laws across the NAFTA signatories, a criminal statute seems better suited to address the theft of trade secret information. A criminal law, with a truly uniform definition of trade secret, uniform penalties, and uniform rights to restitution, that is applicable across all three countries, will provide businesses in the NAFTA region a uniform forum for addressing trade secret theft.

Provided below is this author's version of such an agreement, omitting the preamble and other perfunctory language which commonly precede international agreements.

A. Proposed Language of the North American Trade Secret Agreement

THE NORTH AMERICAN TRADE SECRET AGREEMENT

Section 1: Jurisdiction

1. For violations of this Agreement occurring in the United States of America, district courts of the United States shall have jurisdiction without regard to the amount in controversy or the citizenship of the parties. Appeals of convictions under this law shall be heard exclusively before the Court of Appeals for the Federal Circuit.

2. For violations of this Agreement occurring in the United Mexican States, District Courts (Juzgados de Distrito) at the Federal level shall have jurisdiction.

3. For violations of this Agreement occurring in Canada, the proceedings shall commence in the Federal Court of Canada.

4. This Agreement does not empower one Party's authorities to undertake, in the territorial jurisdiction of the other, the exercise and performance of the functions or authority exclusively entrusted to the authorities of that other Party by its national laws or regulations.

Section 2: Definitions

1. Trade Secret. Trade secret shall have the same meaning as found in 18 U.S.C. § 1839(3).⁷⁶

2. Person. Person is defined as any individual or legal business entity.

3. Misappropriation. Misappropriate means: (1) to acquire a trade secret by

⁷⁶ 18 U.S.C. § 1839 (1996) (“[T]he term ‘trade secret’ means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—(A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.”).

improper means; (2) to reproduce or cause to be reproduced a trade secret by improper means; (3) to receive a trade secret acquired by improper means; (4) to disclose or cause to be disclosed a trade secret without authorization or consent of the owner, or with consent if consent was obtained by improper means; (5) to destroy a trade secret without authorization or consent of the owner, or with consent if consent was obtained by improper means; and (6) transmission of a trade secret obtained by improper means.

4. Improper means. Improper means shall include theft, social engineering, bribery, trickery, breach of any duty or obligation to maintain secrecy, espionage, unauthorized access to computer or electronic information systems, violence or threat of violence.

Section 3: Criminal Offense

1. It shall be a crime, punishable under this section, to misappropriate a trade secret, obtain a trade secret by improper means, attempt to misappropriate a trade secret, attempt to obtain a trade secret by improper means, conspire to misappropriate a trade secret, or conspire to obtain a trade secret by improper means, provided that the trade secret has been used, has been developed for use, or has been contemplated for use in international commerce between any two or more of the parties to this agreement, the United States, Canada, or Mexico.

2. Any person who violates Section 3, Paragraph 1 shall, upon finding of guilt, be incarcerated for not less than one but not more than five years plus one day, and fined at an amount decided by the Court.

3. Any person found guilty of violating Section 3, Paragraph 1 in the United States shall be guilty of a felony offense.

4. Any person found guilty of violating Section 3, Paragraph 1 in Canada shall be guilty of an indictable offense, classed as a serious offense as defined in Criminal Code, RSC 1985, c C-46, s 467.1(1).

5. Any person found guilty of violating Section 3, Paragraph 1 in the Mexican United States shall be guilty of a felony.

6. It shall not be a defense that the accused did not know that the information was a trade secret if he was negligent or reckless in that regard.

Section 4: Restitution and Injunctive Relief.

1. Any person found guilty of violating Section 3, Paragraph 1 in Canada shall be liable to pay the owner of the trade secret restitution for all damages caused by the violation.

2. The Court may take any action necessary to preserve the confidentiality of the trade secrets at issue, including the imposition of injunctive relief.

B. Explanation and Discussion of the Proposed Agreement

1. Jurisdiction

Jurisdiction across all three countries is restricted to the federal court system of the country in which the violation occurred. This should help alleviate concerns that uniformity will not exist because of different courts' interpretations of the law. For the same reason, it is appropriate to designate the Court of Appeals for the Federal Circuit as the only appellate court eligible to hear appeals, as it would defeat the purpose of the proposed agreement if there were circuit splits amongst the various courts of appeals pertaining to an interpretation under this agreement.⁷⁷ In Canada, appeals would be directly to the Supreme Court of Canada, and as such there is no need to specifically designate an appellate court in the agreement. In Mexico, which does not rely on case law, the issue of designating an appeals court is equally moot. The restriction in Section 1, Paragraph 4 of the proposed agreement seems necessary to protect the individual sovereignty of the three governments involved.⁷⁸

2. Definitions

The definition of misappropriation, as conceived by this author, is broad enough to encompass all manners of misappropriation. The definition of trade secret is linked to the current definition of trade secret as found in the current version of the Economic Espionage Act of 1996,⁷⁹ owing to the fact the Congress has adopted a near perfect definition. The definition of improper means is a combination of terms that appear in the UTSA⁸⁰ and other terms contemplated by this author as being necessary for the protection of trade secrets.

It was necessary to include a negligence and a recklessness factor in the definitions section to prevent a person from acting in a negligent manner while obtaining the trade secret, or claiming the same at trial, in an attempt to avoid a conviction. The requirement that the trade secret be used or intended for use in international commerce restricts the application of this agreement appropriately, as it is not intended to operate solely within the national boundaries of any one nation. The words "trickery"⁸¹ and other terms related to the unauthorized access of electronic information have been included to ensure that a violation extends to

⁷⁷ See Christopher Rebel J. Pace, *The Case for a Federal Trade Secrets Act*, 8 HARV. J.L. & TECH. 461 (1995) (discussing appellate jurisdiction issues in his own proposed Federal Law.).

⁷⁸ See *Treaty on Cooperation Between the United Mexican States and the United States of America for Mutual Legal Assistance*, art. 1, par. 1; 27 I.L.M. at 448.

⁷⁹ See *supra* note 76 and accompanying text.

⁸⁰ UNIF. TRADE SECRETS ACT § 1(1) (UNIF. LAW COMM'N 1985).

⁸¹ BRIAN A. GARNER, BLACK'S LAW DICTIONARY (10th ed. 2014) ("Trickery n. (18c) The use of subterfuge or stratagems to deceive, esp. to induce some action or statement by another.").

individuals using social engineering⁸² to trick a company or person into either granting access to the trade secret or to the electronic information systems in which the trade secret is stored. The addition of “in tangible or intangible form” to the definition of trade secret allows us to not have the problem that exists in Mexico’s law restricting the definition of a trade secret to a tangible item.⁸³

3. Criminal Offense

All three NAFTA countries have federal laws that criminalize, to some extent, the stealing of trade secret information. In Mexico, this is the primary vehicle for addressing trade secret theft.⁸⁴ Compare that with the United States, where a civil tort claim is more likely to be filed than an action under the Economic Espionage Act of 1996. In Canada, the Security of Information Act provides criminal penalties if the disclosure was made with the benefit of a foreign entity.⁸⁵

By criminalizing the theft of trade secrets in this manner, we have established a uniform criminal offense across the NAFTA region to protect businesses operating in the region. There would be many additional legal pitfalls due to the differences in each country’s civil laws, how the courts interpret claims, and how damages would be awarded, if a civil as opposed to criminal law were proposed. By making a uniform criminal law, we also avoid forum shopping in which violators would hope to have the civil action instituted in a jurisdiction friendlier to them.

The penalties expressed in this agreement are noticeably lower than those for violations of either of the economic espionage laws in Canada or the United States, the benefit of a foreign power, but rather the theft of trade secrets to the personal or corporate gain of another.

Lastly, by classifying the offense as not only a crime, but also a felony crime (United States and Mexico) or a indictable serious offense (Canada), the agreement underscores the seriousness of the offense of trade secret theft, and will act as an additional deterrent to those seeking to steal trade secrets.

4. Restitution

In Canada, it is not appropriate to bring a trade secret civil action before the

⁸² See generally Raj Samani & Charles McFarland, *Hacking the Human Operating System: The Role of Social Engineering Within Cybersecurity*, INTELSECURITY/MCAFEE REP. (2015), <http://www.mcafee.com/us/resources/reports/rp-hacking-human-os.pdf> (defining social engineering and providing an overview of the problem from an Information Technology perspective).

⁸³ See Dominguez-Torrado, *supra* note 46, at 90 (“Under Mexican law, the information subject matter of a trade secret must be fixed on a tangible medium . . .”), <http://www.iam-media.com/Magazine/Issue/42/Management-report/Trade-secrets-in-Mexico>.

⁸⁴ Ley de la Propiedad Industrial [LPI], Artículo 224, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), translated in *Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 106, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

⁸⁵ See R.S.C. 1985, c. O-5 (Can.).

Federal Court of Canada.⁸⁶ My interpretation of the holding in *MacDonald* is that, because the implementation of this Agreement would fall under the treaty making power of the Canadian Parliament, the trade secret provisions, if separate from the criminal offense, would pass muster and be permitted in the Federal Court of Canada.⁸⁷ However, there would be a constitutional challenge in the Canadian courts if a civil damages section remained in the Agreement. However, by removing the issue of civil liability and replacing it instead with restitution, which is permitted as part of a criminal penalty in Canada, we are able to restore the victim to his position before the theft or misappropriation, while allowing the Court to assess a fine in lieu of punitive damages. In the United States, federal courts are already permitted to order restitution in criminal cases.⁸⁸ The Mexican trade secret protection laws already provide for both damages and a monetary fine.⁸⁹

C. Addressing Nationalist Objections

There are bound to be objections by various politicians and citizens who, for nationalist reasons, feel that they are subjecting themselves to an international agreement, which they feel is adequately covered under existing trade secret laws. After examining the patchwork quilt of trade secret protection laws across North America, this is clearly false—North American companies are not adequately protected by the existing trade secret legislation.

Moreover, this is not a call to repeal existing trade secret laws such as the Economic Espionage Act of 1996, which clearly applies to crimes such as the theft of trade secrets from outside (as well as inside) the NAFTA region, nor is it a call to fundamentally change the role of the judiciary in adjudicating cases of trade secret misappropriation. This suggested agreement merely provides a level playing field for North American corporations to be able to protect their trade secret information while engaging in the exercise of business in the NAFTA region.

Criminal sanctions will provide a suitable deterrent for those who would steal trade secrets, and the felony conviction will act as a suitable punishment for those who are not deterred.

CONCLUSION

Businesses engaged in international activities across North America deserve a uniform set of statutes that provide for the protection of trade secret information. They should not have to bear the added expense and apprehension of seeking to

⁸⁶ *MacDonald v. Vapor Canada Ltd.*, [1977] 2 S.C.R. 134 (Can.).

⁸⁷ *Id.* at 145.

⁸⁸ See generally Mandatory Victims Restitution Act of 1996, 18 U.S.C. § 3663(a) (2012).

⁸⁹ Ley de la Propiedad Industrial [LPI], Artículo 224, Diario Oficial de la Federación [DOF], 29-6-2010 (Mex.), translated in *Mexico Industrial Property Law*, WORLD INTELL. PROP. ORG. 106, <http://www.wipo.int/edocs/lexdocs/laws/en/mx/mx113en.pdf> (last visited Nov. 6, 2015).

comply with a patchwork of trade secret legislation that varies so widely from jurisdiction to jurisdiction. In fact, it might very well be the case that some businesses have refused to conduct business in certain jurisdictions based in a large part upon the perceived or real lack of trade secret protection in that area. However, by enacting a North American Trade Secret Agreement, each business can be aware of the protections available to it and its trade secrets, and make its business decisions accordingly. Moreover, this agreement should help prevent the employees who have been entrusted with trade secrets from worrying about restrictive non-compete covenants that can have a real and lasting effect on their ability to earn a living.